

Gobi JSC and its subsidiaries

**Consolidated Financial Statements together
with Independent Auditor's Report
for the year ended 31 December 2019**

**GOBI JSC AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

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GOBI CORPORATION

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Date: 2020.04.24 Ref: 01/331
Re. your ref _____ dated: _____

STATEMENT BY EXECUTIVES

We, Baatarsaikhan Tsagaach is the Chief Executive Officer of Gobi JSC and its subsidiaries ("the Group"), and Selenge Ganbold the Chief Financial Officer, being the officers primarily responsible for the financial reporting of the Group, do hereby state that, in our opinion, the accompanying consolidated financial statements set out on pages 1 to 56 are drawn up in accordance with applicable International Financial Reporting Standards so as to present fairly in view of the consolidated financial position of the Group as at 31 December 2019 and of the consolidated financial performance and the cash flows of the Group for the year ended.



Baatarsaikhan Tsagaach
Chief Executive Officer

Selenge Ganbold
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Gobi JSC,

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Gobi JSC ("the Company") and its subsidiaries (collectively referred to as "the Group") which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the area of focus
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Inventory provision for slow moving stock	
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We identified the valuation of inventories as a key audit matter due to the significant use of judgement by the management in determining the allowance for slow moving or obsolete inventory. The Group's accounting policy is based upon the ageing of inventory, with a percentage provision applied which reflects the actual historical rate of losses made.	
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As disclosed in Notes 3 and 8 to the consolidated financial statements, the carrying value of the inventory at 31 December 2019 amounted to MNT 178,135,943 thousand (net of allowance for slow moving and obsolete items of MNT 1,185,343 thousand).	
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	Our procedures in relation to valuation of the inventory included:
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|--|---|
| | <ul style="list-style-type: none">• Understanding management's assessment in estimating the net realisable values of the finished goods and the internal procedures for making allowance to write off or write down inventories to their net realisable values.• Assessing the reasonableness of allowance for inventories with reference to estimation of net realisable value, aging analysis of inventories and subsequent selling prices of the finished goods.• Testing the ageing of inventory, on a sample basis, to the source documents;• Tracing a selection of finished goods with subsequent selling prices to the source documents. |
|--|---|

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Key audit matter

Completeness and valuation of provisions for tax

We identified the completeness of provision for tax as a key audit matter due to the judgement required in relation to interpretation of tax regulations and estimation in measuring the provision for the Group's tax liability.

The Government of Mongolia continues to reform the business and commercial infrastructure in its transition to a market economy. As a result the laws and regulations affecting businesses continue to change rapidly.

Taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group.

How our audit addressed the area of focus

Our procedures in relation to completeness and valuation of provision for tax included:

- Understanding management's assessment in identifying tax positions and the related accounting policy of provisioning for tax exposures.
- Assessing the appropriateness of provisions recorded in the financial statements by using our specialist tax knowledge with reference to the applicable tax rule and practices, and the latest correspondence between the Group and the various tax authorities.
- Evaluating the adequacy of the disclosures and provisions recorded in the financial statements, including whether the provisions sufficiently address probable penalties and interest, were appropriate and reflect the latest developments.

Recoverability of trade and other receivables

As at 31 December 2019, the provision for impairment on Financial Assets at Amortised Cost is MNT 1,438,595 thousand. This represents the estimation of expected losses at the year end. The determination of appropriate provisions for impairment is a key audit matter as it requires management judgement, is subject to estimation uncertainty and relies on available data.

The accounting policy and key sources of estimation uncertainty in relation to financial asset impairment provisions are disclosed in Notes 2.11 and 3.2 of the consolidated financial statements.

As disclosed in Notes 3 and 6 to the consolidated financial statements, the carrying value of trade and other receivables at 31 December 2019, the only financial assets for which a provision has been accounted for, amounted to MNT 12,976,180 thousand (net of allowance for loss allowance of MNT 1,438,595 thousand).

To consider whether management's estimation methodology was appropriate we:

- We undertook an assessment of the Group's provisioning methodology and compared it with the requirements of IFRS 9.
- We tested the completeness and accuracy of data inputs.
- We reviewed the IFRS 7 disclosures for compliance with the amendments relating to IFRS 9.

As a result of our work we considered the impairment provision to be in a reasonable range.

Other information

Management is responsible for the other information. The other information comprises the information included in the Chairman and CEO statements. Other information is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and we are required to perform other procedures to conclude whether:

- A material misstatements of the other information exists;
- A material misstatements of the Group's financial statements exists; or
- Our understanding of the Group and its environment needs to be updated.

If we conclude that material misstatement exists in other information and this is not corrected we will ask those charged with governance to take appropriate actions in order to bring the uncorrected material misstatements to the attention of the users for whom our report is prepared.

If we conclude that material misstatement exists in the Group's financial statements or our understanding of the Group's and its environment, we shall respond appropriately in accordance with other ISAs.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the consolidated financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Under the Company law of Mongolia paragraph 92 and 94 we are required to report to you if there have been:

- transactions that determined a conflict of interest;
- findings on the accounting and financial reporting;
- other information which are required by Financial Regulatory Commission, the Mongolian Stock Exchange and the law on security market; and
- other information required by the Company's charter and audit contract.

We have no exceptions to report arising from this responsibility.

The engagement partner on the audit resulting in this independent auditor's report is Norjinbat Shagdarsuren.

Norjinbat Shagdarsuren
Director, CPA
Deloitte Onch Audit LLC
24 April 2020



GOBI JSC AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
(IN THOUSANDS OF MONGOLIAN TOGROGS)

	Notes	2019	2018
ASSETS			
<i>Current assets</i>			
Cash and cash equivalents	5	10,641,744	4,940,940
Trade and other receivables	6	12,976,180	12,183,569
Prepayments and advances	7	4,215,397	4,690,681
Inventories	8	178,135,943	142,538,944
Corporate income tax receivable	24.2	266,632	-
Right to returned goods assets	9	565,290	268,017
		206,801,186	164,622,151
<i>Non-current assets</i>			
Property, plant and equipment	10	134,043,015	82,380,060
Right-of-use assets	11	2,371,039	-
Deferred tax assets	24.3	2,710,343	1,250,554
Other non-current assets	13	574,327	355,697
		139,698,724	83,986,311
Total Assets		346,499,910	248,608,462
LIABILITIES AND OWNERS' EQUITY			
<i>Current liabilities</i>			
Trade and other payables	14	37,803,959	4,741,052
Contract liabilities	14.1	2,153,354	1,037,239
Refund liabilities	15	913,198	466,329
Lease liabilities	16	686,742	-
Corporate income tax payable	24.2	-	1,755,234
Borrowings	17	189,267,962	113,722,628
		230,825,215	121,722,482
<i>Non-current liabilities</i>			
Lease liabilities	16	1,865,656	-
Borrowings	17	32,560,000	6,000,000
Long term other payables	18	2,085,657	3,231,805
		36,511,313	9,231,805
Total Liabilities		267,336,528	130,954,287
Owners' Equity			
Share capital	19	780,113	780,113
Revaluation surplus	22	15,647,697	15,647,697
Foreign currency translation reserve	23	(278,529)	(135,203)
Retained earnings		63,014,101	101,361,568
		79,163,382	117,654,175
Total Liabilities and Owners' Equity		346,499,910	248,608,462

The accompanying notes form an integral part of these consolidated financial statements.

GOBI JSC AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019
(IN THOUSANDS OF MONGOLIAN TOGROGS)

	Notes	2019	2018
Revenue	25.1	209,748,268	173,439,375
Cost of sales	25.2	(141,951,917)	(102,147,527)
Gross profit		67,796,351	71,291,848
Finance and other income	26	711,312	542,045
Other gains and (losses)	27	(3,445,430)	(6,561,605)
Finance cost	28	(21,811,123)	(10,521,942)
Selling and marketing expenses		(27,941,691)	(21,244,284)
General and administrative expenses		(10,243,248)	(10,256,107)
Impairment losses on financial assets	6.3	(978,735)	(1,523)
Profit before taxation		4,087,436	23,248,432
Income tax expense	24	(1,630,963)	(5,484,268)
Net profit for the year		2,456,473	17,764,164
Other comprehensive expense that may be reclassified subsequently to profit or loss:			
Exchange differences on translating the net assets of foreign subsidiaries	23	(143,326)	(106,929)
Other comprehensive expense for the year		(143,326)	(106,929)
Total comprehensive income for the year		2,313,147	17,657,235
Earnings per share – Basic (in MNT)	21	3.15	22.77

The accompanying notes form an integral part of these consolidated financial statements.

GOBI JSC AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(IN THOUSANDS OF MONGOLIAN TOGROGS)

	Notes	Share Capital	Revaluation surplus	Foreign currency translation reserve	Retained Earnings	Total equity
Balance as of 1 January 2018		780,113	15,647,697	(28,274)	85,313,652	101,713,188
Net profit for the year		-	-	-	17,764,164	17,764,164
Other comprehensive expense	23	-	-	(106,929)	-	(106,929)
Total comprehensive income for the year		-	-	(106,929)	17,764,164	17,657,235
Declared dividend	20	-	-	-	(1,716,248)	(1,716,248)
Balance as of 31 December 2018 and 1 January 2019		780,113	15,647,697	(135,203)	101,361,568	117,654,175
Net profit for the year		-	-	-	2,456,473	2,456,473
Other comprehensive expense	23	-	-	(143,326)	-	(143,326)
Total comprehensive income for the year		-	-	(143,326)	2,456,473	2,313,147
Effect of acquisition of a subsidiary under common control	29	-	-	-	(35,499,175)	(35,499,175)
Declared dividend	20	-	-	-	(5,304,765)	(5,304,765)
Balance as of 31 December 2019		780,113	15,647,697	(278,529)	63,014,101	79,163,382

The accompanying notes form an integral part of these consolidated financial statements.

GOBI JSC AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019
(IN THOUSANDS OF MONGOLIAN TOGROGS)

	Notes	2019	2018
Cash flows (used in)/from operating activities			
Net profit for the year		2,456,473	17,764,164
Adjustments for:			
Depreciation and amortization of non-current assets		10,653,333	6,558,878
Income tax expense	24	1,630,963	5,484,268
Finance cost	28	21,132,851	10,124,101
Interest income	26	(219,126)	(228,987)
Loss from foreign exchange rate differences		1,436,893	5,394,904
Impairment loss on financial assets	6.3	978,735	1,523
Provision of inventories allowance	8	328,937	120,103
Gain on disposal of a subsidiary	27	(554,407)	-
Loss on disposal of property, plant and equipment	27	7,102	181,707
		37,851,754	45,400,661
Increase in trade and other receivables		(763,250)	(1,146,933)
Decrease/(increase) in prepayments and advances		3,651,598	(1,564,247)
Decrease/(increase) in inventories		27,436,281	(41,387,287)
Increase in right to returned goods assets		(297,273)	(268,017)
(Decrease)/increase in trade and other payables		(2,374,820)	439,989
Increase in refund liabilities		446,869	466,329
Increase/(decrease) in contract liabilities		1,044,341	(601,242)
		66,995,500	1,339,253
Income tax paid	24.2	(4,006,757)	(6,867,067)
Interest paid	17.2	(20,797,873)	(9,046,494)
Net cash flows from /(used in) operating activities		42,190,870	(14,574,308)
Cash flows (used in)/from investing activities			
Interest received		219,126	228,987
Proceeds from sale of property, plant and equipment		1,354,139	99,506
Acquisition of property, plant and equipment		(22,773,108)	(28,077,935)
Acquisition of other non-current assets	13.1	(192,584)	(105,736)
Net payments for acquisition of a subsidiary	29	(13,258,845)	-
Net cash out flow arising on disposal of a subsidiary		(157,533)	-
Advances provided to related parties	30.2	-	(3,000,314)
Repayment of advances from related parties	30.2	-	3,000,314
Net cash flows used in investing activities		(34,808,805)	(27,855,178)
Cash flows (used in)/from financing activities			
Proceeds from borrowings	17.2	264,665,910	186,137,535
Repayment of borrowings	17.2	(260,661,325)	(144,231,210)
Payments of lease liabilities	17.2	(430,809)	-
Payment of dividend	20	(5,305,594)	(1,717,781)
Advances received from related parties	30.2	5,300,000	5,586,782
Repayment of advances to related parties	30.2	(5,300,000)	(5,586,782)
Net cash flows (used in)/from financing activities		(1,731,818)	40,188,544
Effect of exchange rate changes on cash		50,557	(1,880)
Increase/(decrease) in cash and cash equivalents		5,700,804	(2,242,822)
Cash and cash equivalents, at the beginning of the year		4,940,940	7,183,762
Cash and cash equivalents, at the end of the year	5	10,641,744	4,940,940

The accompanying notes form an integral part of these consolidated financial statements.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(IN THOUSANDS OF MONGOLIAN TOGROGS)

1. Operations and organization

Gobi JSC ("the Company") is a joint stock company incorporated under the laws of Mongolia in 1981. The Company's parent is Tavan Bogd Trade LLC and its ultimate controlling party is Mr. Baatarsaikhan Tsagaach.

The consolidated financial statements as of and for the year ended 31 December 2019 comprises the Company and its subsidiaries (together referred to as the "Group").

The subsidiaries of the Group are set out in Note 12.

During the years ended 31 December 2019 and 2018, the Group's primary operations consisted of production and selling of cashmere knitwear, sewn and woven products and provision of related services such as dry cleaning and sewing, knitting service.

The Group's registered address and principal place of business is Gobi Corporation office building, Industrial Street, 3rd khoroo, Khan-Uul district, Ulaanbaatar-17062, Mongolia.

The consolidated financial statements were authorized for issue by the executive management of the Group on 24 April 2020.

2. Summary of significant accounting policies

2.1 Statement of compliance

The consolidated financial statements have been prepared and presented in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

2.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain properties that are measured at revalued amount, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

These consolidated financial statements are presented in Mongolian Togrogs ("MNT"), which is the Company's functional currency.

All financial information is presented in thousands of Mongolian Togrogs, unless otherwise indicated.

2.2.1 Going concern

In preparing the consolidated financial statements, the management has given careful consideration to the future liquidity of the Group in light of the fact that as of 31 December 2019, the Group's current liabilities exceeded its current assets by MNT 24,024,029 thousand in result of the Group has reclassified non-current borrowings for an amount of MNT 29,323,215 thousand as current liabilities as at 31 December 2019 due to the fact that the Group has breached certain debt covenants required by the European Bank for Reconstruction and Development ("EBRD").

This indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern; however, the consolidated financial statements have been prepared on a going concern basis as Tavan Bogd Trade LLC, the parent company, has pledged its continuing support for a minimum of 12 months from 31 December 2019.

In addition, the Group is in the process of obtaining a loan from International Investment Bank ("IIB") for 7 years amounting to EUR 30 million and a loan from Development Bank of Mongolia ("DBM") for a minimum amount of MNT 60 billion. The loan from DBM will be issued as part of the implementation of the Government's program to support domestic cashmere processing companies. Term sheets have been signed with IIB on 28 August 2019 and these loans are expected to be obtained at the end of April 2020. In addition, on 14 February 2020 the Group entered into an agreement with Trade and Development Bank of Mongolia ("TDB") to obtain a working capital loan for 24 months amounting to MNT 20 billion.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(IN THOUSANDS OF MONGOLIAN TOGROGS)

2. Summary of significant accounting policies (cont'd)

2.2.1 Going concern (cont'd)

Management is of the opinion that the Group will be able to meet its financial obligations as the Group has obtained a support letter from its parent, Tavan Bogd Trade LLC and is in the process of obtaining loans from IIB and DBM as noted above. Accordingly, management is of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has right, to variable returns from its involvements with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expense of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.3.1. Changes in the Group's ownership interests in existing subsidiaries

When the Group loses control of a subsidiary, the gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

2.4 Business combinations

2.4.1 Business combination between entities under common control

Acquisitions of businesses or entities under common control are accounted for using the pooling of interest method. The net assets consolidated in a business combination are measured at book value as at date of acquisition. No goodwill is recognized. The Group applies the pooling of interests method with a policy of no restatement of financial information for periods prior to the date of the business combination and not retain equity components of the acquired entity as separate items and account for all equity items of the acquired entity as one equity component. Therefore, no restatement have been made for the financial information for periods prior to the date of the business combination.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(IN THOUSANDS OF MONGOLIAN TOGROGS)

2. Summary of significant accounting policies (cont'd)

2.5 Inventories

Inventories are measured at the lower of purchase and/or production cost, calculated by means of the weighted average cost method, and net realizable value. Purchase cost includes related ancillary costs for purchases in the period. Production cost includes directly attributable costs and a portion of indirect costs reasonably attributable to the products. Net realizable value consists of the estimated selling price less estimated completion costs and estimated selling costs.

Where necessary, an allowance for obsolescence is established for materials or products, in view of their expected use and realizable value.

2.6 Prepayments and advances

Prepayments and advances represent expenses not yet incurred and goods not yet received respectively but already paid in cash. Prepayments and advances are initially recorded as assets and measured at the amount of cash paid. Subsequently prepaid expenses are charged to profit or loss as they are consumed in operations or expire with the passage of time and advances are reclassified to the related assets for which the cash was paid when the goods are received.

Prepayments are classified in the consolidated statement of financial position as current assets when the cost of goods or services related to the prepayments are expected to be incurred within one year. Otherwise, prepayments are classified as non-current assets.

At the end of the reporting period, the Group reviews the carrying amounts of its prepayments to determine whether there is any indication that those prepayments may be impaired.

2.7 Property, plant and equipment

Land rights held by the Group are initially recognised as property, plant and equipment of the Group at their fair value at the date of acquisition. The Group pays annual land tax to the Government upon acquisition of the land rights which are insignificant. Land rights are not depreciated and are measured at revalued amounts less subsequent accumulated impairment losses.

Property, plant and equipment are initially measured at cost. The cost of a property, plant and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

At the end of each reporting period, property, plant and equipment, other than land and buildings, are measured using the cost model and carried at cost less any subsequent accumulated depreciation and impairment losses.

Land and buildings, measured using the revaluation model, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by independent professional appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from that which would be determined using fair values at the end of each reporting period.

Depreciation on revalued assets is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

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2. Summary of significant accounting policies (cont'd)

2.7 Property, plant and equipment (cont'd)

Subsequent expenditures relating to property, plant and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group.

All other subsequent expenditures are recognized as expenses in the period in which those are incurred.

Depreciation is recognized so as to write off the cost or valuation of assets (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method, on the following basis

Buildings	10-40 years
Plant and equipment	10 years
Furniture and fixtures	3 to 10 years
Vehicles	10 years
Leasehold improvement	2 to 5 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount.

2.8 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The useful life of the intangible assets is 3 to 10 years.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when the asset is derecognised.

2.9 Impairment of property, plant and equipment, right of use asset and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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2. Summary of significant accounting policies (cont'd)

2.9 Impairment of property, plant and equipment, right of use asset and intangible assets (cont'd)

In addition, corporate assets are allocated to individual cash-generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or groups of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.10 Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the Instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition or issue of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

2.11 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

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2. Summary of significant accounting policies (cont'd)

2.11.1 Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL). Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

The Group's financial assets consist of financial assets at amortised cost.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below).

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2. Summary of significant accounting policies (cont'd)

2.11.1 Classification of financial assets (cont'd)

For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "finance and other income – interest income" line item.

2.11.2 Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime expected credit losses ("ECL") for trade receivables. Except for those which had been determined as credit impaired under IAS 39, trade receivables have been assessed individually with outstanding significant balances not secured and exceeding MNT 400 million, the remaining balances are grouped based on past due analysis. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

For all other instruments, the Group measures the loss allowance equal to 12 months ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

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2. Summary of significant accounting policies (cont'd)

2.11.2 Impairment of financial assets (cont'd)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

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2. Summary of significant accounting policies (cont'd)

2.11.2 Impairment of financial assets (cont'd)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event (see (ii) above);
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

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2. Summary of significant accounting policies (cont'd)

2.11.3 Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

2.12 Financial liabilities and equity

2.12.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2.12.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

2.12.3 Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method. The Group financial liabilities consist of financial instruments measure at amortised cost using effective interest method.

2.12.3.1 Financial liabilities measured subsequently at amortised cost

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

2.12.3.2 Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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2. Summary of significant accounting policies (cont'd)

2.13 Revenue recognition

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer. The Group recognises revenue when the performance obligation is satisfied and in particular when it transfers control of a product or service to a customer.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

The Group recognises revenue from the following major sources:

- Sale of goods;
- Service income;
- Other revenue.

2.13.1 Sale of goods

Sales of goods refers to sales of cashmere, knitwear, sewn and woven products to wholesalers and to retail customers.

Sales to wholesalers are recognised when control of the products is transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the sales channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract or the group has objective evidence that all criteria for acceptance have been satisfied.

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2. Summary of significant accounting policies (cont'd)

2.13 Revenue recognition (cont'd)

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Sales to retail customers are recognised when control of the products is transferred, being at the point the customers purchases the goods at the retail shops. Payment of the transaction price is due immediately when the customer purchases products.

It is the group's policy to sell its products to the retail customer with a right of return within 7 days and to the wholesale customers up to certain limits stated in the contracts. Therefore, a contract liability (refund liability) and a right to the returned good assets (included in current assets) are recognised for the products expected to be returned.

The Group uses its accumulated historical experience to estimate such returns on a portfolio level using the expected value method.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

2.13.2 Service income

Service income mainly refers to sewing, knitting and dry cleaning service provided to a related party and other local customers.

Revenue is recognised over time as the performance of the Group creates or enhances an asset that the customer controls as the Group performs.

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

2.13.3 Other revenue

Other revenue mainly comprise the sale of raw material and semi products.

Other revenue is recognised when customers obtain control of products being the raw materials when the goods are dispatched from the Group's warehouse. Invoices are generated and revenue is recognised at that point in time. Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer. The Group recognises other revenue when the performance obligation is satisfied and in particular when it transfers control of a product or service to a customer and in particular when the goods have been shipped to the customer's specific location (delivery).

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2. Summary of significant accounting policies (cont'd)

2.13 Revenue recognition (cont'd)

2.13.4 Assets and liabilities arising from right of return

Right of return assets

Right of return asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products. In order to estimate the returns, the Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. It is considered highly probable that a significant reversal in the cumulative revenue recognised will not occur given the consistent level of returns over previous years.

Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

2.14 Leases

2.14.1 Definition of a lease (upon application of IFRS 16 in accordance with transitions in Note 4.1)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

2.14.2 The Group as a lessee (upon application of IFRS 16 in accordance with transitions in Note 4.1)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of stores and warehouses that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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2. Summary of significant accounting policies (cont'd)

2.14 Leases (cont'd)

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 Financial Instruments and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

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2. Summary of significant accounting policies (cont'd)

2.14 Leases (cont'd)

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease liabilities are presented as separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

2.14.3 The Group as a lessee (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

2.14.4 The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

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2. Summary of significant accounting policies (cont'd)

2.15 Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions.

Currencies other than MNT are regarded as foreign currencies and transactions denominated in foreign currencies are translated into MNT at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into MNT at exchange rates prevailing at the date of consolidated statement of financial position. Exchange differences arising from the changes in exchange rates subsequent to the dates of the transactions for monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss in the period in which they arise.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Mongolian Togrogs using exchange rates prevailing at the end of the each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

2.16 Expense recognition

Expenses in the consolidated statement of profit or loss and other comprehensive income are presented using the function of expense method. Costs of sales are expenses incurred that are associated with the goods sold. Operating expenses are costs attributable to administrative, marketing, selling and other business activities of the Group.

2.17 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Effective from 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.18 Employee benefits

The Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period that are expected to be settled wholly before twelve months after the end of the reporting period. A liability is also recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

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2. Summary of significant accounting policies (cont'd)

2.19 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are reviewed at the end of the reporting period and adjusted to reflect the current best estimate. If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision should be reversed.

2.20 Contingent liabilities and assets

Contingent liabilities and assets are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent liabilities are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

2.21 Related Parties

A related party transaction is a transfer of resources, services or obligations between the Group and a related party, regardless of whether a price is charged. A person or a close member of that person's family is related to the Group if that person:

- has control or joint control over the Group; or
- has significant influence over the Group; or
- is a member of the key management personnel of the reporting group or of a parent of the Group.

An entity is related to the Group if any of the following conditions apply:

- the entity and reporting entity are members of same group which means that each parent, subsidiary and fellow subsidiary is related to each other's;
- one entity is an associate or joint venture of the other entity or an associate or joint venture of a member of a group of which the other entity is a member;
- both entities are joint ventures of the same third party;
- one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- the entity is controlled or jointly controlled by a person who is a related party as identified above; and
- a person that has control or joint control over the reporting entity has significant influence over the entity or is a member of the key management personnel of the entity or of a parent of the entity.

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2. Summary of significant accounting policies (cont'd)

2.22 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

2.22.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2.22.2 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments is only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

2.22.3 Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

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3. Critical accounting judgements and key sources of estimation uncertainty

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses of the reporting period. Due to the inherent uncertainty in making those estimates, actual results reported in future periods may be based upon amounts that differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

3.1 Critical accounting judgements

3.1.1 Useful life of land and depreciation

The Group's land situated in Mongolia is held under a lease term of 15 to 60 years.

The Land Law of Mongolia provided a legal basis for Mongolian legal entities holding land rights.

The Group paid an upfront fee when the Group first signed the land agreement. Historically, the Group successfully renewed the lease upon expiry at minimal cost, if any. The directors of the Group are of the opinion that the Group can continue to renew the land at minimal cost, if any, and can continue to take possession of the land indefinitely. Thus, the land with a carrying amount of MNT 2,613,998 thousand (2018: MNT 2,576,718 thousand) is stated at the revalued amount less accumulated impairment and is not depreciated.

3.1.2 Tax system in Mongolia

The Government of Mongolia continues to reform the business and commercial infrastructure in its transition to a market economy. As a result the laws and regulations affecting businesses continue to change rapidly.

Taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group.

3.1.3 Determine method to estimate variable consideration and assessing the constraint

Certain contracts for sale of goods include a right of return that gives rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the expected value method is the appropriate method to be used in estimating the variable consideration for the sale of goods with right of return, given the large number of customers' contracts that have similar characteristics.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition the uncertainty on the variable consideration will be resolved within a short time frame.

As at 31 December 2019 the revenue amount to MNT 209,748,268 thousand net of returns for an amount of MNT 9,942,500 thousand (31 December 2018: the revenue amount to MNT 173,439,375 thousand net of returns for an amount of MNT 7,608,773 thousand).

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3. Critical accounting judgements and key sources of estimation uncertainty (cont'd)

3.2 Key sources of estimation uncertainty

The following are the key assumptions used in the estimation uncertainty at the end of the reporting period involving the significant amounts recognised in the consolidated financial statements.

3.2.1 Inventory provision for slow moving stock

Reviews are made periodically by management on damaged, obsolete and slow moving inventories. These reviews require judgement and estimates. The estimates and associated assumptions are based on historical experience and actual results may differ from the estimation.

The Group's accounting policy is based upon the ageing of inventory, with a percentage provision applied which reflects the actual historical rate of losses made.

The management believes that the assumptions and judgements used are appropriate in determining the valuation of inventories.

As at 31 December 2019, the carrying amount of inventories is MNT 178,135,943 thousand, (excluding right to returned goods assets of MNT 565,290 thousand) net of provision for inventories of MNT 1,185,343 thousand, (31 December 2018: the carrying amount of inventories is MNT 142,538,944 thousand excluding right to returned goods assets of MNT 268,017 thousand, net of provision for inventories of MNT 856,406 thousand).

3.2.2 Calculation of loss allowance

The Group uses provision matrix to calculate ECL for the trade receivables except for the amount which is assessed individually. The provision rates are based on internal credit ratings with groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

As at 31 December 2019, the carrying amount of trade and other receivables is MNT 12,976,180 thousand, net of loss allowance of MNT 1,438,595 thousand (31 December 2018: the carrying amount of trade and other receivables is MNT 12,183,569 thousand, net of loss allowance of MNT 462,385 thousand).

3.2.3 Useful lives of property, plant and equipment

As described in Note 2.7 noted above, the Group reviews the estimated useful lives of property, plant and equipment at the end of the reporting period and adjusts if necessary taking into consideration the usage patterns, the age of the assets and the technological advances. No revisions made to the useful lives at end of the current reporting period. Possible changes in these estimates may significantly affect profit for the year.

Management believe that the current useful lives reflect the economic lives of property, plant and equipment.

As at 31 December 2019, the carrying amount of property, plant and equipment is MNT 134,043,015 thousand (31 December 2018: MNT 82,380,060 thousand).

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3. Critical accounting judgements and key sources of estimation uncertainty (cont'd)

3.2 Key sources of estimation uncertainty (cont'd)

3.2.4 Fair value measurement of land and buildings

Land and buildings are measured at revalued amounts for financial reporting purposes. Revaluation shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. In estimating the fair value of an asset, the Group uses market-observable data to extent it is available. Where level 1 inputs are not available, the Group engages third party qualified appraiser to perform the valuation. Possible change in these changes could result in revisions to the value of land and buildings.

Information about the valuation techniques and inputs used in determining the fair value of land and buildings are disclosed in Note 10.2.

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4. Application of new and amendments to international financial reporting standards (IFRSs)

4.1 New standards and amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of new standards and amendments to IFRSs issued by the International Accounting Standards Board ('IASB') that are mandatorily effective for an accounting period that begins on or after 1 January 2019.

Effective for annual periods beginning or after	New Standards or Amendments
1 January 2019	• IFRS 16 Leases • IFRIC 23 Uncertainty over Income Tax Treatments • Amendments to IFRS 9 Prepayment Features with Negative Compensation • Amendments to IAS 19 Plan Amendment, Curtailment or Settlement • Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures • Amendments to IFRSs Annual Improvements to IFRS Standards 2015-2017 Cycle

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 Leases ("IAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

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4. Application of new and amendments to international financial reporting standards (IFRSs) (cont'd)

4.1 New standards and amendments to IFRSs that are mandatorily effective for the current year (cont'd)

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease by-lease basis, to the extent relevant to the respective lease contracts:

- elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment.
- used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 16.6% per annum.

The Group recognised lease liabilities of MNT 651,151 thousand and right-of-use assets of MNT 651,151 thousand at 1 January 2019.

The table below presents a reconciliation of the operating lease commitments as at 31 December 2018 to the lease liability recognised as at 1 January 2019.

	At 1 January 2019
Operating lease commitments as at 31 December 2018	1,410,768
Less: Termination options reasonably certain to be exercised	328,460
Less: Recognition exemption – low value leases	21,862
Less: Short-term leases and other leases with lease term ending within 12 months from the date of initial application (excluding low value leases)	253,977
Total notional lease liabilities at 1 January 2019	806,469
Discounting using the Group's incremental borrowing rate of % (weighted-average rate) at 1 January 2019	16.60%
Lease liabilities recognised as at 1 January 2019	651,151
	At 1 January 2019
Analysed as:	
Current	200,359
Non-current	450,792
	651,151

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4. Application of new and amendments to international financial reporting standards (IFRSs) (cont'd)

4.1 New standards and amendments to IFRSs that are mandatorily effective for the current year (cont'd)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	1 January 2019
Right-of-use assets relating to operating leases recognised upon application of IFRS 16	651,151
Right-of-use assets, represented by premises as at 1 January 2019	651,151
By class:	
Premises	651,151

The following adjustments were made to the amounts recognised in the statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included

	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under IFRS 16 at 1 January 2019
Assets			
Right-of-use assets	-	651,151	651,151
Liabilities			
Lease liabilities	-	651,151	651,151

4.2 New standards and amendments to IFRSs that have been issued but are not yet effective.

The new standards and Interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards and amendments, if applicable, when they become effective.

Effective for annual periods beginning or after	New Standards or Amendments
1 January 2020	- Amendments to IFRS 3 <i>Definition of Business</i> for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 - Amendments to IAS 1 and IAS 8 <i>Definition of Material</i> - Amendments to IFRS 9, IAS 39 and IFRS 7 <i>Interest Rate Benchmark Reform</i>
1 January 2021	IFRS 17 <i>Insurance Contracts</i>
1 January 2022	Amendments to IAS 1 <i>Classification of Liabilities as Current or Non-Current</i>
To be determined	Amendments to IFRS 10 and IAS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in IFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Management of the Group anticipates that the application of all new and amendments to IFRSs will have no material impact on the financial statements in the foreseeable future.

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5. Cash and cash equivalents

	2019	2018
Cash on hand and in bank – Foreign currency	9,224,760	1,656,522
Cash on hand and in bank – MNT	1,416,984	3,284,418
	10,641,744	4,940,940

Cash in bank represents bank current accounts bearing nil to 7.2% interest per annum for MNT accounts and nil to 1.8% interest per annum for foreign currency accounts.

6. Trade and other receivables

	2019	2018
Trade receivables	9,435,501	11,564,711
Loss allowance	(1,438,595)	(462,385)
	7,996,906	11,102,326
Receivables from related parties (see Note 30.1)	39,264	500
Other receivables	4,940,010	1,080,743
	12,976,180	12,183,569

6.1 Trade receivables

As at 1 January 2018, the gross amount of trade receivables from contracts with customers amounted to MNT 12,599,819 thousand.

The average credit period on sales of goods is 90 days within pre-approved credit limits. No interest is charged on overdue trade receivables. Before accepting any new customer, management of the Group assess the potential client credit quality and defines credit limits by customer.

The Group always measures the loss allowance which are not credit-impaired for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over ten years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer base.

Except for the carrying amount of MNT 1,354,709 thousand (2018: MNT 460,862 thousand) for which the Group carried out a specific assessment and determined an expected credit loss of 100% of the exposure, for all the remaining amount, taking into consideration the defaults historically incurred and adjusted for the forward looking information, the Group determined an expected credit loss on the receivable not past due and non-secured for 1% of the exposure (2018: 0.01%). Accordingly, expected credit loss of MNT 83,886 thousand (2018: MNT 1,523 thousand) is recognised.

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6. Trade and other receivables (cont'd)

6.2 Other receivables

	2019	2018
VAT receivables	4,281,750	403,838
Receivable from employees	157,533	118,920
Other receivables	500,727	557,985
	4,940,010	1,080,743

6.3 Loss allowance

The following table shows the movement in lifetime ECL that has been recognised for trade receivables in accordance with simplified approach set out in IFRS 9.

	Lifetime ECL (not credit impaired)	Lifetime ECL (Credit impaired)	Total
Balance as at 1 January 2018	-	1,425,547	1,425,547
Net remeasurement of loss allowance	1,523	-	1,523
Amounts written off	-	(964,685)	(964,685)
Balance as at 31 December 2018	1,523	460,862	462,385
Net remeasurement of loss allowance	82,363	896,372	978,735
Amounts written off	-	(2,525)	(2,525)
Balance as at 31 December 2019	83,886	1,354,709	1,438,595

7. Prepayment and advances

	2019	2018
Advance payments to vendors	3,074,226	3,944,070
Prepaid expense	901,037	295,303
Prepaid tax	240,134	451,308
	4,215,397	4,690,681

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8. Inventories

	2019	2018
Raw materials	61,245,705	55,979,147
Work in progress	16,190,487	32,442,697
Finished goods	83,294,407	40,075,657
Consumables	17,202,349	14,207,691
Goods in transit	1,388,338	690,158
	179,321,286	143,395,350
Allowance for slow moving and obsolete items	(1,185,343)	(856,406)
	178,135,943	142,538,944

Raw materials include raw cashmere, de-haired cashmere and cashmere yarns. The cost of inventories charged to cost of sales during the year amounted to MNT 139.5 billion (31 December 2018: MNT 94.7 billion).

During the year, the Group capitalized salaries and related staff costs amounting to MNT 28,344 million (31 December 2018: MNT 20,970 million) in inventories.

Movement in the allowance for obsolete and slow moving items:

	2019	2018
Balance at beginning of the year	856,406	736,303
Allowance provided for slow moving and obsolete items	553,328	120,103
Write off against inventories sold	(224,391)	-
Balance at end of the year	1,185,343	856,406

Inventories with a carrying amount of MNT 144,800 million (2018: MNT 138,009 million) have been pledged as a security for certain of the Group's bank loan.

9. Right to returned goods assets

	2019	2018
Right to returned goods assets	565,290	268,017
	565,290	268,017

The right to returned goods asset represents the Group's right to recover products from customers where customers exercise their right of return under the sales agreement. The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method.

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10. Property, plant and equipment

	Land	Buildings	Plant and Equipment	Furniture and fixtures	Vehicles	Construction in progress	Leasehold improvement	Total
Cost or valuation:								
1 January 2018	2,576,718	23,472,502	49,360,469	3,232,207	1,745,622	8,240,463	-	88,627,981
Additions	-	6,455,263	15,093,244	1,179,635	316,880	8,758,691	-	31,803,713
Disposals	-	-	(616,747)	(329,815)	(48,580)	-	-	(995,142)
Reclassification	-	13,418,999	91,733	30,277	-	(13,541,009)	-	-
31 December 2018	2,576,718	43,346,764	63,928,699	4,112,304	2,013,922	3,458,145	-	119,436,552
Additions	-	972,873	1,919,319	600,604	351,938	18,237,263	-	22,081,997
Acquisition of a subsidiary (Note 29)	37,280	16,948,741	21,032,338	1,922,463	399,231	15,104	622,574	40,977,731
Disposal of a subsidiary (Note 12)	-	-	-	(194,889)	-	-	-	(194,889)
Disposals	-	-	(316,400)	(294,370)	(117,052)	(1,176,291)	-	(1,904,113)
Reclassification	-	(2,971)	2,497,625	(151,577)	(56,000)	(2,287,077)	-	-
31 December 2019	2,613,998	61,265,407	89,061,581	5,994,535	2,592,039	18,247,144	622,574	180,397,278
Accumulated depreciation:								
1 January 2018	-	1,805,889	28,071,080	923,731	552,506	-	-	31,353,206
Depreciation	-	963,243	4,664,262	602,948	186,762	-	-	6,417,215
Disposals	-	-	(480,310)	(203,245)	(30,374)	-	-	(713,929)
Reclassification	-	(51,254)	48,439	2,815	-	-	-	-
31 December 2018	-	2,717,878	32,303,471	1,326,249	708,894	-	-	37,056,492
Depreciation	-	1,796,556	6,766,192	1,118,646	249,749	-	-	9,931,143
Disposal of a subsidiary (Note 12)	-	-	-	(90,500)	-	-	-	(90,500)
Disposals	-	-	(263,735)	(211,650)	(67,487)	-	-	(542,872)
Reclassification	-	(2,971)	108,792	(100,226)	(5,595)	-	-	-
31 December 2019	-	4,511,463	38,914,720	2,042,519	885,561	-	-	46,354,263
Carrying amounts at:								
31 December 2018	2,576,718	40,628,886	31,625,228	2,786,055	1,305,028	3,458,145	-	82,380,060
31 December 2019	2,613,998	56,753,944	50,146,861	3,952,016	1,706,478	18,247,144	622,574	134,043,015

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10. Property, plant and equipment (cont'd)

The construction in progress pertains to on-going project for factory building and not installed yet equipment of the Group.

10.1 Assets pledged as security

As of 31 December 2019, land, buildings, building under construction and equipment with total carrying amount of MNT 76,339 million (31 December 2018: the carrying amount of MNT 58,984 million) are pledged as security for bank loans (see Note 17.1).

10.2 Fair value measurement of the Group's land and buildings

The Group's land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent impairment losses.

The revaluation of the Group's land and buildings were performed by an independent appraiser not related to the Group as at 31 December 2015, 31 December 2016 and 31 December 2017.

The fair value of the land was determined based on the market comparable approach that reflects recent transaction prices for similar properties.

The Group reassessed the fair value of these assets as at 31 December 2019 and did not identify material adjustment from the carrying value as at 31 December 2019, therefore in accordance with IAS 16 the values have not been adjusted.

Details of the Group's land and buildings and information about the fair value hierarchy as at the end of the reporting period and as follows:

	2019		2018	
	Level 3	Fair value as at 31 December 2019	Level 3	Fair value as at 31 December 2018
Land	2,613,998	2,613,998	2,576,718	2,576,718
Buildings	56,753,944	56,753,944	40,628,886	40,628,886
	59,367,942	59,367,942	43,205,604	43,205,604

Had the Group's land and buildings been measured on a historical cost basis, their carrying amount would have been as follows:

	2019	2018
Land	337,280	300,000
Buildings	46,034,243	29,834,625

10.3 Fully depreciated property, plant and equipment

	2019	2018
Cost	16,277,400	9,652,382

10.4 Depreciation and amortisation charged to profit or loss and inventories

Depreciation and amortisation charged to selling and general administrative expenses:

	2019	2018
Depreciation of property, plant and equipment	2,200,547	1,117,579
Depreciation of right-of-use assets	544,538	-
Amortisation of intangible assets	177,652	141,663
	2,922,737	1,259,242

During the year, the Group capitalized depreciation expenses amounted to MNT 7,730 million (31 December 2018: MNT 5,299 million) in inventories.

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11. Right-of-use assets

	Premises	Total
Cost:		
At 1 January 2019	651,151	651,151
Additions	-	-
Acquisition of a subsidiary (Note 29)	2,264,426	2,264,426
At 31 December 2019	2,915,577	2,915,577
Accumulated depreciation:		
At 1 January 2019	-	-
Charge for the year	544,538	544,538
At 31 December 2019	544,538	544,538
Carrying amount:		
At 31 December 2019	2,371,039	2,371,039

The Group leases stores and warehouse for its operations. The average lease term is 3.8 years and no lease agreement has options to purchase stores and warehouse at the end of lease term.

The maturity analysis of lease liabilities is presented in Note 16.

11.1 Amounts recognised in profit and loss

	2019
Depreciation expense on right-of-use assets	544,538
Interest expense on lease liabilities	299,629
Expense relating to short-term leases and other with lease terms end within 12 months of the date of initial application of IFRS 16	630,441
Expense relating to leases of low value assets excluding short-term leases of low value assets of the date of initial application of IFRS 16	21,862
Expense relating to variable lease payments not included in the measurement of the lease liabilities	184,318

The total cash outflow for leases amount to MNT 1,567,059 thousand including those expenses relating to short-term leases, low value assets and variable lease payments not included in the measurement of the lease liabilities.

The Group has termination options in 4 of the leases for stores and the termination options held are exercisable only by the Group and not by the respective lessors. During the year, the Group did not terminate any leases that was accounted for as a lease in accordance with IFRS 16.

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12. Subsidiaries

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			2019	2018
Gobi Cashmere Europe GmbH	Trading	Germany	100%	100%
Gobi Cashmere Inner Mongolia Co.Ltd	Trading	China	100%	100%
Gobi Cashmere SPRL (i)	Trading	Belgium	-	100%
Goyo LLC (ii)	Trading	Mongolia	100%	-
Gobi Mongolian Cashmere USA Corp (iii)	Trading	USA	100%	-

- (i) On 1 January 2019, Gobi JSC lost its control over Gobi Cashmere SPRL due to Gobi JSC transferred all shares of Gobi Cashmere SPRL to the ultimate controlling party of the Group.

The gain on disposal of Gobi Cashmere SPRL is disclosed in Note 27. No investment was retained in the former subsidiary. A gain of MNT 554,407 thousand arose on the disposal of Gobi Cashmere SPRL, being the difference between the proceeds of disposal and the carrying amount of the subsidiary's net assets.

- (ii) On 31 May 2019, Gobi JSC acquired all shares of Goyo LLC from its parent company, Tavan Bogd Trade LLC (see Note 29).

- (iii) In August 2019, Gobi JSC established a wholly owned subsidiary, Gobi Mongolian Cashmere USA Corp in California, the USA. This subsidiary purchases cashmere products only from the Company and sells these goods through its one store.

13. Other non-current assets

	2019	2018
Intangible assets	357,812	235,903
Deposit placed for lease stores	216,515	119,794
	574,327	355,697

13.1 Intangible assets

	2019	2018
Carrying amount		
At January 1	235,903	280,115
Additions	192,584	105,736
Acquisition of a subsidiary (Note 29)	107,764	-
Disposals	-	(8,285)
Disposal of a subsidiary (Note 12)	(787)	-
Amortization for the year	(177,652)	(141,663)
Net book value at 31 December	357,812	235,903

Intangible assets comprise accounting software for a net amount of MNT 307,529 thousand (2018: MNT 172,014 thousand) and trademark for a net amount of MNT 50,283 thousand (2018: MNT 63,889 thousand).

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14. Trade and other payables

	2019	2018
Trade payable	9,025,958	1,353,375
Related party payable (Note 30.1)	24,641,697	-
Salary payable	1,448,398	1,465,517
Other taxes payable (excluding corporate income tax)	1,916,588	938,445
Dividend payable (see Note 20)	167,496	168,325
Other payables	603,822	815,390
	37,803,959	4,741,052

Trade payable mainly relate to raw material purchases from foreign and domestic vendors and the Group has financial risk management policies in place to ensure that all payables are paid within the contractual terms.

14.1 Contract liabilities

	2019	2018
Amounts received in advance-shown under current liabilities	2,153,354	1,037,239
	2,153,354	1,037,239

Contract liabilities as at 31 December 2019 is expected to be recognised as revenue by 31 December 2020.

Contract liabilities as at 1 January 2018 and 31 December 2018 amounted to MNT 1,638,481 thousand and MNT 1,037,239 thousands have been recognised as revenue during 2018 and 2019 respectively.

15. Refund liabilities

	2019	2018
Refund liabilities		
Arising from rights of return	913,198	466,329
	913,198	466,329

The refund liabilities relate to customers' right to return products under the sales agreement. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method.

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16. Lease liabilities

	2019
Maturity analysis:	
Within one year	1,045,285
More than one year but not more than two years	982,794
More than two years but not more than five years	1,274,078
More than 5 years	-
	<u>3,302,157</u>
Less: unearned interest	<u>(749,759)</u>
	<u>2,552,398</u>
	2019
Analysed as:	
Current	686,742
Non-current	<u>1,865,656</u>
	<u>2,552,398</u>

The Group does not face a significant liquidity risk with regard to its lease liabilities.

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17. Borrowings

	2019	2018
Current liabilities	189,267,962	113,722,628
Non-current liabilities	32,560,000	6,000,000
	221,827,962	119,722,628

Terms and conditions of outstanding loans were as follows:

	2019		2018	
	Current liability	Non-current liability	Current liability	Non-current liability
Secured loans:				
Golomt Bank LLC (i)	88,424,400	-	6,343,008	-
European Bank for Reconstruction and Development (ii)	37,275,273	-	42,286,720	-
Khan Bank LLC(iii)	27,730,000	-	-	-
Development Bank of Mongolia LLC (iv)	14,300,000	28,600,000	53,143,360	-
Xac Bank LLC (v)	12,100,000	-	-	-
Trade and Development Bank of Mongolia LLC (vi)	6,412,943	3,960,000	9,640,000	6,000,000
Interest payable	3,025,346	-	2,309,540	-
Total borrowings	189,267,962	32,560,000	113,722,628	6,000,000

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2019	2018
Effective interest rates:		
Fixed-rate borrowings	14.5%	9.87%
Variable-rate borrowings	7.79%	8.51%

17.1 Summary of borrowing arrangements

(i) Loans from Golomt Bank LLC as at 31 December 2019 and 2018 are as follows:

- On 19 March 2018, the Group obtained a multi-currency credit line from Golomt Bank for 24 months for an amount of MNT 90.0 billion or equivalent amount in USD bearing an interest rate of 16.8% and 8.0% per annum respectively, for working capital needs of the Group. As at 31 December 2019, the Group had withdrawn an amount of MNT 88.4 billion. In May 2019, interest rate for MNT disbursement has been decreased from 16.8% to 16.2%. The Group is allowed to repay the outstanding before or at the maturity in accordance with the contract. The credit line is secured by equipment, inventory and current assets of the Group. The breach of covenants required by EBRD loan led to a cross breach of covenants of the credit line obtained from Golomt bank for which the Group obtained a waiver letter on 16 March 2020, however no reclassification is required due to the fact that maturity date of the credit line was 19 March 2020 and the credit line was classified as short term as at 31 December 2019.
- In January 2017 and March 2017, the Group obtained loans in the amounts of EUR 725,968 (MNT 1,926,546 thousand) and EUR 1,320,000 (MNT 3,825,188 thousand) bearing interest rates of 8.2% and 7.8% per annum respectively. These loans have been fully repaid in January and February 2018 respectively in accordance with the repayment terms. The loans were secured by buildings and land of the Group.

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17. Borrowings (cont'd)

17.1 Summary of borrowing arrangements (cont'd)

(ii) Loans from EBRD as at 31 December 2019 and 2018 are as follows:

- The Group obtained a loan from EBRD in total of USD 16 million. The amounts of USD 6 million in September 2017, USD 4 million in February 2018 and USD 6 million in July 2018 bearing an annual interest of six-month London Interbank Offered Rate (LIBOR) plus 5.3%-6% to increase liquidity and working capital of the Group. The amount of USD 2.9 million is to be repaid in 2020. The remaining amount of USD 10.7 million is to be fully repaid between 2021 and 2024. The loan is secured by the buildings, factory equipment and inventory of the Group. As at 31 December 2019 and 31 December 2018 the Group breached certain covenants of the loan for which the Group has obtained a waiver letter from EBRD for 2018 but not for 2019, therefore the non-current borrowing for an amount of MNT 29,323,215 thousand has been presented as current.

(iii) Loans from Khan Bank as at 31 December 2019 are as follows:

- In May 2017, Goyo LLC obtained a multi-currency credit line from Khan Bank for 36 months in the amount of MNT 50.7 billion or equivalent amount in USD bearing an interest rate of 16.8% and 11.0% per annum respectively, for working capital needs of Goyo LLC. On 26 September 2018, the interest rates per annum was decreased to 15.0% for MNT disbursements and 7.2% for USD disbursements. In November 2019, an amendment was made to increase the facility amount to MNT 58.0 billion or equivalent amount in USD. As at 31 December 2019, the Group had withdrawn an amount of MNT 27.7 billion. The Group is allowed to repay the outstanding amount before or by May 2020 in accordance with the contract. The loan is secured by trade receivables of the Group.

(iv) Loans from Development Bank of Mongolia as at 31 December 2019 and 2018 are as follows:

- In June 2019, the Group obtained a loan for 24 months amounting to MNT 42.9 billion bearing an interest rate of 12% for working capital purpose. The loan is secured by land, building, trade receivables and inventory of the Group. The loan is to be fully repaid in June 2021.
- In May 2018, the Group obtained a loan for 18 months amounting to MNT 48.0 billion bearing an interest rate of 12.0% per annum for working capital purpose. The loan was secured by buildings, land and inventory of the Group. The loan was fully repaid in December 2019.
- In May 2018, Goyo LLC obtained a loan for 19 months amounting to MNT 30.36 billion bearing an interest rate of 12% for working capital purpose. The loan was secured by land, building, equipment and inventory of the Group and fully repaid in November 2019.
- In July 2017, the Group obtained a loan for 11.3 months amounting to USD 8 million bearing an interest rate of 8% for working capital purpose. The loan was secured by inventory of the Group and fully repaid in July 2019.

(v) In October 2017, the Group obtained a credit line from Xac Bank for 12 months amounting to USD 6 million bearing an interest rate of 8% and is secured by inventory of the Group. The agreement has been amended in September 2018 where interest rate per annum was increased to 9% and credit term was extended by additional 12 months. In June 2019, an amendment was made to change the facility amount of USD 6 million to MNT 15.9 billion bearing an interest rate of 15.6% per annum. In September 2019, interest rate per annum was increased to 15.8% and credit term has extended by another 12 months. The Group is allowed to repay the outstanding amount before or by September 2020 in accordance with the contract. As at 31 December 2019, the Group had withdrawn an amount of MNT 12.1 billion.

(vi) Loans from Trade and Development Bank of Mongolia as at 31 December 2019 and 2018 are as follows:

- In December 2016, the Group obtained a loan from Trade Development Bank for 60 months amounting to MNT 6 billion bearing an interest rate of 8% per annum for working capital purpose. The loan will be paid in monthly installments of MNT 170 million scheduled to start on 31 January 2020 and are due to be fully repaid on 21 December 2021 and is secured by buildings and land of the Group. The loan has been financed by Asian Development Bank.

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17. Borrowings (cont'd)

17.1 Summary of borrowing arrangements (cont'd)

- The Group obtained a loan in December 2014 amounting to MNT 10 billion and MNT 5 billion bearing an interest rate of 9% per annum for each loan. These loans were issued as part of the implementation of the Government's program to support domestic cashmere processing companies. The loans were secured by buildings and lands of the Group and changed to 600,000 shares of Gobi JSC which were owned by Tavan Bogd Cashmere LLC (former parent company) in March 2018. According to the repayment schedule, the loans were repaid in monthly installments of MNT 10 million and it has been fully repaid in December 2019.
- In December 2017, the Goyo LLC obtained a loan for 12 months in the amount of USD 12.4 million bearing an interest rate of 7.8% per annum for working capital needs of the Company. On 3 December 2018, the loan's the interest rate increased to 8.3% per annum and the maturity date extended to April 2020. The outstanding balance as at 31 December 2019 is USD 1.6 million. The loan is secured by cash, trade receivables and inventories of the Group.
- In May 2019, the Group obtained a loan amounting to USD 9 million bearing an interest rate of 12.0% per annum for working capital purpose. The loan was secured by land, buildings, trade receivables and inventories of the Group and it has been fully repaid in June 2019.

17.2 Reconciliation of liabilities arising from financing activities

	Borrowings (Note 17)	Lease liabilities (Note 16)	Loans from related parties (Note 30)	Dividend payable (Note 20)	Total
At 1 January 2018	70,671,813	-	-	169,858	70,841,671
Financing cash inflows	186,137,535	-	5,586,782	-	191,724,317
Financing cash outflows	(144,231,210)	-	(5,586,782)	(1,717,781)	(151,535,773)
Dividend declared	-	-	-	1,716,248	1,716,248
Exchange differences	6,066,883	-	-	-	6,066,883
Interest paid (under operating cash flows)	(8,984,221)	-	(62,273)	-	(9,046,494)
Interest expense	10,061,828	-	62,273	-	10,124,101
At 31 December 2018	119,722,628	-	-	168,325	119,890,953
Adjustment upon application of IFRS 16	-	651,151	-	-	651,151
At 1 January 2019 (restated)	119,722,628	651,151	-	168,325	120,542,104
Financing cash inflows	264,665,910	-	5,300,000	-	269,965,910
Financing cash outflows	(260,661,325)	(430,809)	(5,300,000)	(5,305,594)	(271,697,728)
Acquisition of a subsidiary (Note 29)	96,385,222	2,332,056	-	-	98,717,278
Dividend declared	-	-	-	5,304,765	5,304,765
Exchange differences	1,380,549	-	-	-	1,380,549
Interest paid (under operating cash flows)	(18,359,659)	(299,629)	(2,138,585)	-	(20,797,873)
Interest expense	18,694,637	299,629	2,138,585	-	21,132,851
At 31 December 2019	221,827,962	2,552,398	-	167,496	224,547,856

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18. Long term other payables

	2019	2018
Other long term liabilities	2,085,657	3,231,805
	2,085,657	3,231,805

Other long term liabilities comprise exposures due to the purchase of factory equipment from Japan in credit terms bearing an annual interest of 3% and LIBOR plus 4.7%. The exposures as at 31 December 2019 and 31 December 2018 are to be fully repaid in 2022 and 2020 respectively. The payable is secured by equipment of the Group.

19. Share capital

	Number of shares		Share capital	
	2019	2018	2019	2018
Balance at beginning of the year	780,112,500	7,801,125	780,113	780,113
Impact of share split	-	772,311,375	-	-
Balance at end of the year	780,112,500	780,112,500	780,113	780,113

On 1 October 2018 the Company effected a 100 for 1 stock split of its common shares.

The share capital as of 31 December 2019 amounting to MNT 780,112.5 thousand and consists of 780,112,500 authorized and issued common shares at par value of MNT 1.00 (31 December 2018: 780,112,500 authorized and issued common shares at par value of MNT 1.00).

20. Dividend

	2019	2018
Dividend payable, beginning balance	168,325	169,858
Declared dividend	5,304,765	1,716,248
Payment of dividend	(5,305,594)	(1,717,781)
Dividend payable, ending balance	167,496	168,325

By Resolution of the Board of Directors dated 13 February 2019, the Group declared dividend amounting to MNT 6.8 per share and totalling to MNT 5,304,765 thousand (2018: MNT 220 per share before splitting each share into 100 on 1 October 2018 and totalling to MNT 1,716,248 thousand).

21. Earnings per share

	2019	2018
Net profit for the year	2,456,473	17,764,164
Weighted average number of ordinary shares	780,112,500	780,112,500
Earnings per share (in MNT)	3.15	22.77

Basic earnings per share are calculated by dividing the Group's profit by the weighted average of shares outstanding during the year.

No diluted earnings per share is presented because there are no outstanding shares or options other than ordinary shares.

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22. Revaluation surplus

	2019	2018
Balance at beginning of year	15,647,697	15,647,697
Balance at end of year	15,647,697	15,647,697

23. Foreign currency translation reserve

	2019	2018
Balance at beginning of year	(135,203)	(28,274)
Exchange differences arising on translating the net assets of foreign subsidiaries	(143,326)	(106,929)
Balance at end of year	(278,529)	(135,203)

24. Income tax expense

	2019	2018
Current tax:		
Current tax expense in respect of the current year	1,984,891	6,650,891
Deferred tax:		
Deferred tax benefit recognized in the current year	(353,928)	(1,166,623)
	1,630,963	5,484,268

24.1 Current tax

The income tax expense for the year can be reconciled to the accounting profit as follows:

	2019	2018
Profit before taxation	4,087,436	23,248,432
Income tax expense at statutory rate of 25% based on net profit before taxation	1,021,859	5,812,108
Effect of incomes that are non-taxable	(138,602)	(459,916)
Effect of expenses that are non-deductible	709,749	417,664
Effect of interest income subject to flat 10% rate	(32,869)	(34,348)
Effect of tax losses of the subsidiaries not recognised as deferred tax assets	520,826	198,760
Effect of lower tax rate on profit below MNT 3 billion (10%)	(450,000)	(450,000)
Income tax expense	1,630,963	5,484,268

The tax rate used for the 2019 and 2018 reconciliations above is the corporate tax rate of 25% payable by corporate entities in Mongolia on taxable profits in excess of MNT 3 billion (10% on the taxable profit of up to MNT 3 billion) in accordance with the Economic entities income tax law.

At the end of the reporting period, the Group has unused tax losses of MNT 18,670,575 thousand (2018: MNT 795,040 thousand) available for offset against future profits. A deferred tax asset has been recognised in respect of MNT 15,792,230 thousand (2018: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining MNT 2,878,345 thousand (2018: MNT 795,040 thousand) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of MNT 2,083,305 thousand (2018: MNT 795,040 thousand that will expire in 2020) that will expire in 2021.

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24. Income tax expense (cont'd)

24.2 Current tax (assets)/liabilities

	2019	2018
Balance at beginning of the year	1,755,234	1,971,410
Current tax expense for the year	1,984,891	6,650,891
Payments for income tax	(4,006,757)	(6,867,067)
Corporate income tax (receivable)/payable	(266,632)	1,755,234

24.3 Deferred tax balances

The following are major deferred tax assets and liabilities recognised and movements thereon during the current and prior years:

2019	Opening balance	Recognized in profit or (loss)	Effects of business combination (Note 29)	Closing balance
Deferred tax assets in relation to:				
<i>Exchange difference on:</i>				
Financial assets at amortised cost	(164,513)	(93,908)	61,824	(196,597)
Financial liabilities at amortised cost other than borrowings	81,940	69,116	(384)	150,672
Borrowings	1,380,509	(545,360)	356,046	1,191,195
Accelerated tax depreciation	(47,382)	24,623	8,609	(14,150)
Unused tax losses	-	899,457	679,766	1,579,223
	1,250,554	353,928	1,105,861	2,710,343

2018	Opening balance	Recognized in profit or (loss)	Closing balance
Deferred tax assets in relation to:			
<i>Exchange difference on:</i>			
Financial assets at amortised cost	(44,447)	(120,066)	(164,513)
Financial liabilities at amortised cost other than borrowings	(9,594)	91,534	81,940
Borrowings	170,113	1,210,396	1,380,509
Accelerated tax depreciation	(32,141)	(15,241)	(47,382)
	83,931	1,166,623	1,250,554

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25. Revenue and expenses

25.1 Revenue

	2019	2018
Sales of knitwear	117,699,964	85,560,542
Sales of sewn	46,408,578	42,170,254
Sales of woven	39,909,718	34,853,446
Service income	3,135,616	9,356,857
Others	2,594,392	1,498,276
	209,748,268	173,439,375

There are no unsatisfied or partially unsatisfied performance obligations as at 31 December 2019 and 31 December 2018.

25.2 Cost of Sales

	2019	2018
Knitwear	82,177,157	49,842,077
Sewn	29,240,210	26,171,295
Woven	26,061,706	17,861,181
Cost of service	2,426,967	7,445,051
Other	2,045,877	827,923
	141,951,917	102,147,527

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25. Revenue and expenses (cont'd)

25.3 Expense by nature

	2019	2018
Changes in finished goods, work in progress, consumables and goods in transit	(30,988,315)	(27,286,855)
Raw materials used	119,758,279	94,921,005
Salaries and related costs	45,993,457	33,092,258
Depreciation and amortization expenses	11,636,462	6,114,310
Advertisement expenses	5,441,682	2,446,166
Supplies and consumables	4,389,217	2,837,338
Utility expenses	3,657,590	2,645,031
Customer promotion expenses	3,513,642	4,010,354
Repairs and maintenances	2,996,751	1,865,874
Labor safety expenses	2,787,415	1,813,633
Bank charges	2,662,758	2,014,738
Rental expense	836,621	1,488,680
Business trips	832,602	979,614
Insurance expenses	754,582	349,241
Transportation expenses	652,469	1,082,841
Security expenses	453,379	302,999
Fuel expense	347,218	221,833
Professional service fees	216,105	257,859
HR and related costs	206,585	103,907
Communication expenses	108,549	55,742
Other expenses	3,879,808	4,331,350
Total cost of sales, selling and marketing expenses and general and administrative expenses	180,136,856	133,647,918

26. Finance and other income

	2019	2018
Interest income	219,126	228,987
Rental and other income	492,186	313,058
	711,312	542,045

27. Other gains and (losses)

	2019	2018
Net foreign exchange losses	(3,992,735)	(6,379,898)
Gain on disposal of a subsidiary (see Note 12)	554,407	-
Loss on disposal of property, plant and equipment, net	(7,102)	(181,707)
	(3,445,430)	(6,561,605)

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28. Finance cost

	2019	2018
Interest expense on borrowings	18,694,637	10,061,828
Interest expense on trade and other payables (including non-current)	2,138,585	62,273
Interest expense on lease liabilities	299,629	-
Other finance costs	678,272	397,841
	21,811,123	10,521,942

During the year, the Group capitalized interest expense amounting to MNT 595 million (31 December 2018: MNT 792 million) in construction in progress.

29. Business Combination

Subsidiary acquired	Principal activity	The proportion of voting equity interests acquired	Date of acquisition	Total consideration
Goyo LLC	Manufacturing cashmere products	100%	31 May 2019	37,075,004
Goyo LLC				As at the date of acquisition
Total assets				
Cash and cash equivalents				166,975
Trade and other receivables				317,940
Prepayment				3,374,236
Inventories				63,482,829
Property, plant and equipment				40,977,731
Intangible assets (accounting software)				107,764
Right-of-use assets				2,264,426
Deferred tax assets				1,105,861
Other non-current assets				138,532
Total Liabilities				
Trade and other payables				(11,193,713)
Borrowings				(96,385,222)
Lease liabilities				(2,332,056)
Contract liabilities				(71,774)
Other tax payables				(377,700)
Carrying amount of identifiable net assets acquired				1,575,829
Total consideration				37,075,004
Net loss on acquisition of Goyo LLC				35,499,175

On 31 May 2019, the Company acquired all shares of Goyo LLC from its parent company, Tavan Bogd Trade LLC. This business combination has been treated as business combination between entities under common control which has been accounted for using the pooling of interest method.

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29. Business combination (cont'd)

The Company has applied the pooling of interests method with a policy of no restatement of financial information for periods prior to the date of the business combination and not retain equity components of the acquired entity as separate items and account for all equity items of the acquired entity as one equity component. Therefore, the difference between the consideration and the carrying amount of the net assets acquired of MNT 35.5 billion on acquisition of Goyo LLC has been directly accounted for as equity. The consideration transferred in a business combination is measured at book value. No goodwill recognized.

	As at the date of acquisition 2019
Total consideration	37,075,004
Satisfied by:	
Cash transferred	13,425,820
Payable	23,649,184
Total consideration paid in cash	13,425,820
Less: Cash and cash equivalents balances acquired	(166,975)
Net cash outflow arising on acquisition	13,258,845

30. Balances and transactions with related parties

30.1 Balances with related parties

The following balances were outstanding at the end of the reporting period:

	2019	2018
Receivables from related parties (other related parties)	39,264	500
Payable to related parties (the parent)	24,641,697	-

Payable to the parent as at 31 December 2019 relates to acquisition of all shares of Goyo LLC by the Company from its parent, Tavan Bogd Trade LLC in May 2019 in credit terms bearing an interest rate of 8.9% per annum. The payable was due to be paid in August 2020 as at the date of acquisition by 14 instalments. On 10 January 2020, both parties agreed to extend the maturity date of this payable to May 2021.

All the balances due from and due to related parties except for the above mentioned payable to the parent due to the acquisition of Goyo related to normal sales made to and purchases made from the related parties.

None of the balance is secured, no loss allowance has been recognized in the current or prior year in respect of amounts owed by related parties.

30.2 Transactions with related parties

Other than the acquisition of Goyo LLC that disclosed in the Note 29, the following transactions are incurred with the parent:

	2019	2018
Advances received from parent (Note 17.2)	-	5,586,782
Payments of advances received from the parent (Note 17.2)	-	5,586,782
Purchases made from the parent	1,038,505	326,281
Interest expense to the parent	1,896,701	58,102
Sales made to the parent	5,268	3,600

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30. Balances and transactions with related parties (cont'd)

30.2 Transactions with related parties (cont'd)

The following transactions are incurred with other related parties of the Group which are entities under common control:

	2019	2018
Advances received from related parties (Note 17.2)	5,300,000	-
Payments of advances received from related parties (Note 17.2)	5,300,000	-
Advances provided to related parties	-	3,000,314
Collection of advances provided to related parties	-	3,000,314
Purchases made from related parties	2,422,292	3,859,283
Sales made to related parties	2,921,604	9,979,074
Interest expense to related parties	2,323	-
Interest income from related parties	-	6,480

All transactions with related parties are at mutually agreed terms.

30.3 Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year was as follows:

	2019	2018
Short-term benefits	1,275,133	1,903,367

Remuneration of the Group's directors included salaries and bonuses.

31. Financial instruments and financial risk management objectives

The Group's principal financial instruments comprise of cash and bank balances, trade and other receivables, trade and other payables, borrowings and long term other payables.

Categories of financial instruments:

	2019	2018
Financial assets:		
Amortised cost	19,552,689	16,720,671
Financial liabilities:		
Amortised cost	258,352,592	125,291,523

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group does not invest in financial instruments for trading or hedging purposes.

The Group is exposed to financial risks such as market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Group's policies and objective in managing these risks are summarized below:

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31. Financial instruments and financial risk management objectives (cont'd)

31.1 Credit risk management

Credit risk refers to the risk that counter-party will default on its contractual obligations resulting in financial loss to the Group.

31 December 2019	Note	External credit rating	12 months or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
<i>Financial assets at amortised cost:</i>						
Cash in banks and cash equivalents	5	N/A	12 months ECL	10,641,744	-	10,641,744
Trade receivables	6	N/A	Lifetime ECL	9,435,501	(1,438,595)	7,996,906
Other receivables	6	N/a	12 months ECL	697,524	-	697,524
Deposit placed for lease stores	13	N/A	12 months ECL	216,515	-	216,515
				20,991,284	(1,438,595)	19,552,689

31 December 2018	Note	External credit rating	12 months or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
<i>Financial assets at amortised cost:</i>						
Cash in banks and cash equivalents	5	N/A	12 months ECL	4,940,940	-	4,940,940
Trade and other receivables	6	N/A	Lifetime ECL	11,564,711	(462,385)	11,102,326
Other receivables	6	N/a	12 months ECL	677,405	-	677,405
				17,183,056	(462,385)	16,720,671

Currently, there is no independent rating agency service available in the local market. Therefore, the Group has adopted a policy of making credit sales with customers who have history of long and trustworthy relationship with the Group and providing credits within the pre-approved credit limits. Annual sales contract is concluded with the customers and renewed annually and the contract compliance is continuously monitored.

The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risk associated with trade receivables is mitigated because they are insured and secured by letter of credit. The carrying amount of trade receivables insured or with a letter of credit amounts to MNT 6,344 million (2018: MNT 8,855 million).

The management of the Group considers that bank balances that are deposited with local banks or financial institutions with high credit rating to be low credit risk financial assets. The management of the Group considers the probability of default is negligible and accordingly, no loss allowance was recognized.

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31. Financial instruments and financial risk management objectives (cont'd)

31.1 Credit risk management (cont'd)

The management of the Group has made collective assessments and/or individual assessment on recoverability of trade receivables based on historical settlement records and adjusted for forward-looking information. The Group determines the expected credit losses on trade receivables not credit-impaired by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Trade receivables with credit-impaired with gross carrying amounts of MNT 1,354,709 thousand as at 31 December 2019 (2018: MNT 460,862 thousand) were assessed individually. Details of the impairment assessment on trade receivables are set out in Note 6.

The management of the Group has made individual assessment on recoverability of other receivables based on historical settlement records and adjusts for forward-looking information. The management of the Group has assessed that other receivables have not had a significant increase in credit risk since initial recognition and risk of default is insignificant, and therefore, no impairment has been recognised.

Five largest customers account for 55% of the total balance of trade receivables (31 December 2018: 41%).

The credit risk is concentrated on amounts due from third parties. Management monitors the settlement of the amounts and ensure that they are timely repaid.

Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased. The Group also requires full payment of any outstanding amounts upon fulfilling the next orders from the customers. The Group does not have financial guarantee to third parties.

31.2 Liquidity risk management

As at 31 December 2019, the Group's current liabilities exceeded its current assets by approximately MNT 24,024,029 thousand, which causes the Group in significant liquidity risk. Subsequent to the end of the reporting period, the Group has taken appropriate measures as set out in note 2.2.1 to mitigate such liquidity risk.

Liquidity risk arises when the Group encounters difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's objective of managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the Board of Management of the Group, which has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay.

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31. Financial instruments and financial risk management objectives (cont'd)

31.2 Liquidity risk management (cont'd)

	Weighted average effective interest rate	On demand and less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total	Carrying amount
31 December 2019							
Non-interest bearing	-	743,016	304,549	276,676	-	1,324,241	1,324,241
Variable interest rate instruments	7.68%	5,612,157	427,357	40,458,547	2,222,034	48,720,095	42,182,954
Fixed interest rate instruments excl. lease liability	13.80%	7,764,226	7,281,062	173,691,931	33,720,612	222,457,831	214,845,397
Fixed interest rate instrument /lease liability/	16.60%	87,107	174,214	783,964	2,256,872	3,302,157	2,552,398
		14,206,506	8,187,182	215,211,118	38,199,518	275,804,324	260,904,990

	Weighted average effective interest rate	On demand and less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total	Carrying amount
31 December 2018							
Non-interest bearing	-	2,104,890	195,487	36,713	-	2,337,090	2,337,090
Variable interest rate instruments	8.51%	1,734,534	859,956	43,054,189	-	45,648,679	44,265,765
Fixed interest rate instruments	9.55%	8,478,021	1,252,723	63,909,309	9,808,118	83,448,171	78,688,668
		12,317,445	2,308,166	107,000,211	9,808,118	131,433,940	125,291,523

31.3 Market risk

Market risk refers to the possibility that changes in market prices, such as foreign exchange rates, interest rates will affect the Group's profit or the value of its holdings of financial instruments. The Group focuses on two market risk areas, namely interest rate risk and foreign currency risk. The objective and management of these risks are discussed below.

31.3.1 Interest rate risk management

The Group is exposed to interest rate risk because the entities in the Group possess certain bank balances and lease liabilities at fixed rates, and borrow funds at both fixed and floating interest rates. The cash flow interest rate risk arises from variable rate borrowings while fair value interest rate risk arises from fixed rate borrowings, bank balances, lease liabilities and trade and other payables. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group does not use hedging instruments to manage interest rate risk.

The Group's exposures to interest rates on certain bank deposits and financial liabilities are detailed in Note 5 and Note 31.2 respectively.

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31. Financial instruments and financial risk management objectives (cont'd)

31.3.1 Interest rate risk management (cont'd)

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to floating interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities in 2019, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit after tax for the year ended 31 December 2019 would decrease/increase by MNT 158,186 thousand (31 December 2018: MNT 165,997 thousand). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

In the opinion of management of the Group, the expected change in interest rate will not have material impact on the interest income on pledged bank deposits and bank balances, hence sensitivity analysis is not presented.

31.3.2 Foreign currency risk management

The Group incurs foreign currency risk on purchases and payments denominated in a currency other than MNT. The Group does not manage these exposures with foreign currency derivative products.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date explained in MNT are as follows:

	2019		2018	
	Liabilities	Assets	Liabilities	Assets
Foreign currency denominated	78,952,252	20,021,644	74,018,796	12,423,989
	78,952,252	20,021,644	74,018,796	12,423,989

Foreign currency sensitivity analysis

The Group is mainly exposed to USD, JPY and EURO (together referred to as "the foreign currencies"). The following table details the Group's sensitivity to a 10% increase and decrease in the MNT against the foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A 10 percent strengthening of MNT against foreign currencies held by the Group as at the date of the consolidated statement of financial position would increase profit after tax by the amount shown below. This analysis assumes all other risk variables remained constant.

	2019	2018
Effect on profit after tax	4,419,796	4,619,611
	4,419,796	4,619,611

A 10 percent weakening of MNT against the foreign currencies held by the Group as at the date of the consolidated statement of financial position would have had the equal but opposite effect on the above currencies to the amount shown above, on the basis that all other risk variables remained constant.

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31. Financial instruments and financial risk management objectives (cont'd)

31.4 Fair values of financial instruments

The Group follows following hierarchy for determining and disclosing the fair value of financial instruments based on the level of significant inputs used in measurement.

Level 1: Fair value is based on quoted prices in active markets for identical assets or liabilities.

Level 2: The inputs used for fair value measurement are market observable inputs other than those quoted prices included within level 1, either directly or indirectly.

Level 3: Valuation techniques are used to estimate fair value of which significant inputs are not based on observable market data.

The Group determines fair values for these financial instruments which are not carried at fair value in the consolidated financial statements as follows:

(i) Financial assets and liabilities for which fair value approximates carrying amount

For financial assets and liabilities that are liquid or having short term maturity of less than one year, it is assumed that the carrying amount approximate to their respective fair value.

(ii) Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost basis are estimated by comparing market interest rates when they were first recognized with the current market rates offered for the similar financial instruments available in Mongolia.

The Group's financial instruments consist of financial assets and financial liabilities carried at amortized cost.

The management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

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32. Segment information

Information reported to the executive director, being the Chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the types of sales delivered or provided, in respect of the 'Domestic sales' and 'Export sales' operations by line of products and cost of sales to provide a gross margin analysis. No operating segments have been aggregated in arriving at the reportable segments of the Group.

Other than Revenue and Cost of sales, no other income and expenses are allocated to a segment. No analysis of segment assets and liabilities are presented as it is not regularly reviewed by the Group's chief operating decision maker.

32.1 Segment revenue and results

		Segment revenue		Segment profit	
		2019	2018	2019	2018
Domestic sales:	Knitwear	61,685,979	41,858,531	20,329,069	20,512,623
	Sewn	38,926,608	34,446,836	15,011,111	12,899,731
	Woven	28,518,410	25,530,926	10,935,770	13,589,914
	Service income	3,135,616	9,356,857	708,649	1,911,806
	Other	2,491,480	671,130	510,120	184,922
		134,758,093	111,864,280	47,494,719	49,098,996
Export sales:	Knitwear	56,013,985	43,702,011	15,193,738	15,205,842
	Sewn	7,481,970	7,723,418	2,157,257	3,099,228
	Woven	11,391,308	9,322,520	2,912,242	3,402,351
	Other	102,912	827,146	38,395	485,431
		74,990,175	61,575,095	20,301,632	22,192,852
		209,748,268	173,439,375	67,796,351	71,291,848
Finance and other income				711,312	542,045
Other gains and (losses)				(3,445,430)	(6,561,605)
Finance cost				(21,811,123)	(10,521,942)
Selling and marketing expenses				(27,941,691)	(21,244,284)
General and administrative expenses				(10,243,248)	(10,256,107)
Impairment losses on financial assets				(978,735)	(1,523)
Profit before taxation				4,087,436	23,248,432

No single customers contributed 10% or more to the Group's revenue for both 2019 and 2018.

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32. Segment information (cont'd)

32.2 Geographical information

The Group sells cashmere goods in different geographical areas as detailed below:

	Revenue from external customers		Non-Current assets	
	2019	2018	2019	2018
Mongolia	134,758,093	111,864,280	136,296,969	82,123,825
Asia Pacific	43,475,233	32,961,394	36,391	54,850
Europe	24,749,976	19,051,960	655,021	557,082
Russia	3,202,275	5,234,930	-	-
North America	3,546,548	4,326,811	-	-
Oceania	16,143	-	-	-
	209,748,268	173,439,375	136,988,381	82,735,757

The Group's operations are located in Mongolia, China, Germany and the US.

Information about the Group's revenue from external customers is presented based on the location of the customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

Non-current assets excluded deferred tax assets.

33. Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from 2018.

The capital structure of the Group consists of net debt (borrowings net off by cash and bank balances) and equity, comprising issued capital, reserves and retained earnings.

34. Commitments for expenditure

	2019	2018
Commitments for the acquisition of property, plant and equipment	-	7,268,760
	-	7,268,760

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35. Operating lease arrangements

35.1 The Group as lessor

As at 31 December 2019 and 2018 the Group did not have any long-term non-cancellable operating leases as lessor. The Group has 12 months non-cancellable property lease contracts with its related parties. These lease contracts include a clause for a renewal option with initial lease term or 12 months unless a proposal to terminate these leases are made by either lessee or lessor.

The lessee does not have an option to purchase the buildings at the expiry of the lease period.

Future minimum lease payments under non-cancellable operating leases as at 31 December 2019 are as follows:

	2019	2018
Not more than 1 year	36,530	95,455
	36,530	95,455

35.2 The Group as lessee

Future minimum rental payable under non-cancellable operating leases as at 31 December 2018 are as follows:

	2018
Within one year	639,267
After one year but not more than five years	771,501
	1,410,768

36. Events after the reporting period

The outbreak of COVID-19 in mainland China and the subsequent quarantine measures imposed by the mainland China government as well as the travel restrictions imposed by Mongolia and other countries in early 2020, including the closure of the border with mainland China and Russia, have had a negative impact on the operations of the Group as most of the Groups operations located in Mongolia, Europe, US and Asia Pacific.

The outbreak of the COVID-19 is expected to have a negative impact on the Group's customers and suppliers. This may in turn negatively affect the recoverability of Group's financial assets and other assets due from these parties e.g. debtors, which are subject to impairment analysis or ECL assessments as appropriate. The possibility of impairment of the Group's inventories is also expected to be negatively affected.

The outbreak of COVID-19 has led to substantial travel bans and lockdowns across worldwide. Increased global travel restrictions amid virus infections substantially impacted to worldwide trade, posing a significant threat to the global and local economy. Given the dynamic nature of these circumstances, the related impact on the Group's consolidated results of operations, cash flows and financial condition could not be reasonably estimated at this stage and will be reflected in the Group's 2020 annual financial statements.